

**United States Telephone Association**

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March 13, 1996

Mr. William Caton  
Secretary  
Federal Communications Commission  
1919 M Street - Room 200  
Washington, DC 20554

RECEIVED  
MAR 13 1996  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Ex Parte Meeting:  
CC Docket No. 94-1

Dear Mr. Caton:

On March 12, 1996, Ed Lowry, Dennis Weller, Sandy Wagner and Frank McKennedy, representing the United States Telephone Association (USTA), met with Jim Schlichting, Chief of the Common Carrier Bureau Tariff Division, and FCC Staff Members Les Selzer, Steve Weingarten, Rich Lerner, and Ben Bartolome.

The purpose of the meeting was to discuss USTA's proposals in the Second Further Notice of Proposed Rulemaking in CC Docket No. 94-1 regarding interstate access baseline pricing flexibility and streamlined regulation. Attached is a document provided to the Staff regarding these key USTA proposals for pricing flexibility in this proceeding.

Due to the lateness of this meeting, USTA is filing an original and a copy of this ex parte and attachment today. Please include them in the public record of this proceeding.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Frank McKennedy".

Frank McKennedy  
Director - Legal and Regulatory  
Affairs

cc: Jim Schlichting  
Ben Bartolome  
Rich Lerner  
Les Selzer  
Steve Weingarten

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# **UNITED STATES TELEPHONE ASSOCIATION CC DOCKET 94-1, SECOND FURTHER NOTICE PROPOSAL FOR ADAPTIVE PRICE CAP PLAN**

## USTA's Proposals are Consistent with Commission Objectives

Customers Benefit.  
Correct Economic Signals.  
Promotes Efficient Competition.  
Complete by September, 1996

## Baseline Proposal. Proposed modifications do not require competitive showing.

Increases service options available to customers.  
Sends more efficient entry signals.  
Price cap and other safeguards remain in place.

### Alternative Pricing Plans.

- APPs are optional discounted pricing plans based on an existing service.  
Temporary (promotional) offering, or  
Permanent (OCP-like) offering.
- Increases range of choices for customers.
- Promotes efficient use of network services. Reduces pricing anomalies which lead to uneconomic choices by consumers.  
Prices closer to incremental cost.  
Reduces distortion between switched and special services.
- APPs are widely used in telecommunications and other industries to promote efficient use of existing services.  
AT&T allowed to introduce optional plans without competitive showing.
- Competition protected.  
Prices too low - direct cost showing.  
Prices too high - price cap ceiling; availability of existing service.  
Revenue shifting - no headroom created by APPs.
- Not a new service - should not be subject to same requirements.

### Part 69 Waiver Process.

- The Part 69 waiver process has been a detriment to the introduction of new services; e.g. creates uncertainty, imposes delay, and telegraphs information to competitors.
- Waivers should not be required for new elements or subelements associated with new switched access services.
- Consistent with presumption in favor of new services established by the Act.
- Customers benefit from new choices for services in a more timely fashion.
- Encourages efficiency and innovation by LECs and their competitors.
- Services subject to tariff review, price cap regulation, complaint process.

March 12, 1996

#### Part 69 Waiver Process (con't)

- Commission could require an efficient notification process which presumptively finds the services in the public interest, with the burden on opponents to demonstrate harm.

#### Switched Access Flexibility.

- Expand zone density pricing to local switching, CCL, and IC. Allow restructure for local switching, CCL, and IC based on customer volumes.
- Allows prices to move toward cost.
- Price cap bands protect against unreasonable rate increases.

#### Requests for Proposals (RFP)

- Allow LECs to respond to RFPs on an individual basis. Similarly situated customers would have same service and price available.
- Customer specific needs would be met in a more efficient manner.
- RFPs are commonly used by purchasers of all types of goods and services to obtain an efficient price and service configuration.
- Competitors of the LEC are able to offer best price / best service in response to an RFP. The absence of a viable competitor (the LEC) from the bidding results in a suboptimal solution for the customer. In an RFP situation, it can be demonstrated to the Commission that competition exists for the customer's business.

#### Other Proposed Modifications

##### Price Cap Baskets and Bands

- Simplified version of current structure.
- Consolidates service categories.
- Permits zone pricing.

##### Tariff Review for New Services

- No need for tracks.
- New services should be presumed to qualify for Track 2 treatment.
- If tracks, Track 1 should only include mandated services.

##### Restructured Services

- Reduce notice period to 14 days.

##### Remove Lower Service Band Limits

- Upper pricing constraint creates disincentive to lower prices.

Streamlined Regulation. Requires competitive showing.

An adaptive framework can't be premature.

- Streamlining would occur only in access markets where showing has been met.
- Allows market forces to replace price caps where sufficient access competition has developed.
  - Would promote effective competition by allowing LECs to respond - - creating greater competitive benefits for consumers
  - Some access markets would meet reasonable criteria today
- To establish clear expectations among both entrants and incumbents now. Provides more efficient signals to guide entry and investment decisions. Creates benefits even in markets which are not yet competitive

An Adaptive Framework for Streamlining Should Have These Elements:

- Definition of the Relevant Market.
  - Should be based on three dimensions: Geography, Service, and Customer.
  - Geography
    - No single unit (zone, MSA, etc) describes all access markets well
    - Problems caused if market area too large or too small
    - USTA proposal to group wire centers
      - Allows areas to vary in size, subject to clear rules
      - Keeps number of market areas reasonable
  - Service
    - Should include substitutable groups of access services
      - Different access arrangements can provide the same function
  - Customer
    - Ability to substitute access services depends on size of end-user location
    - Switched and special access close substitutes for large customer locations, but not for small
    - Availability of alternative supply different by customer size, characteristics
- Criteria for Streamlining -- Indicators of Market Power.
  - Should focus on three aspects: Supply Responsiveness, Demand Responsiveness, Barriers to Entry.
  - Supply responsiveness
    - Addressability measures availability of access alternatives to customers in the relevant market
    - Supply available for customers representing 25% of demand

- Provides useful way to implement capacity share measure recommended in merger guidelines
- Adds geographic dimension to simple capacity approach
- Uses data which can be gathered at reasonable cost

#### Demand responsiveness

- Showing by LEC that customers regard alternative supply as substitutable
- Because access competition will develop at different rates in different markets, experience in one market will be useful in evaluating other markets

#### Barriers to entry

- At least one competitor should be certified and operating in the relevant market
- If supply necessary to meet addressability standard exists, then entry has already occurred

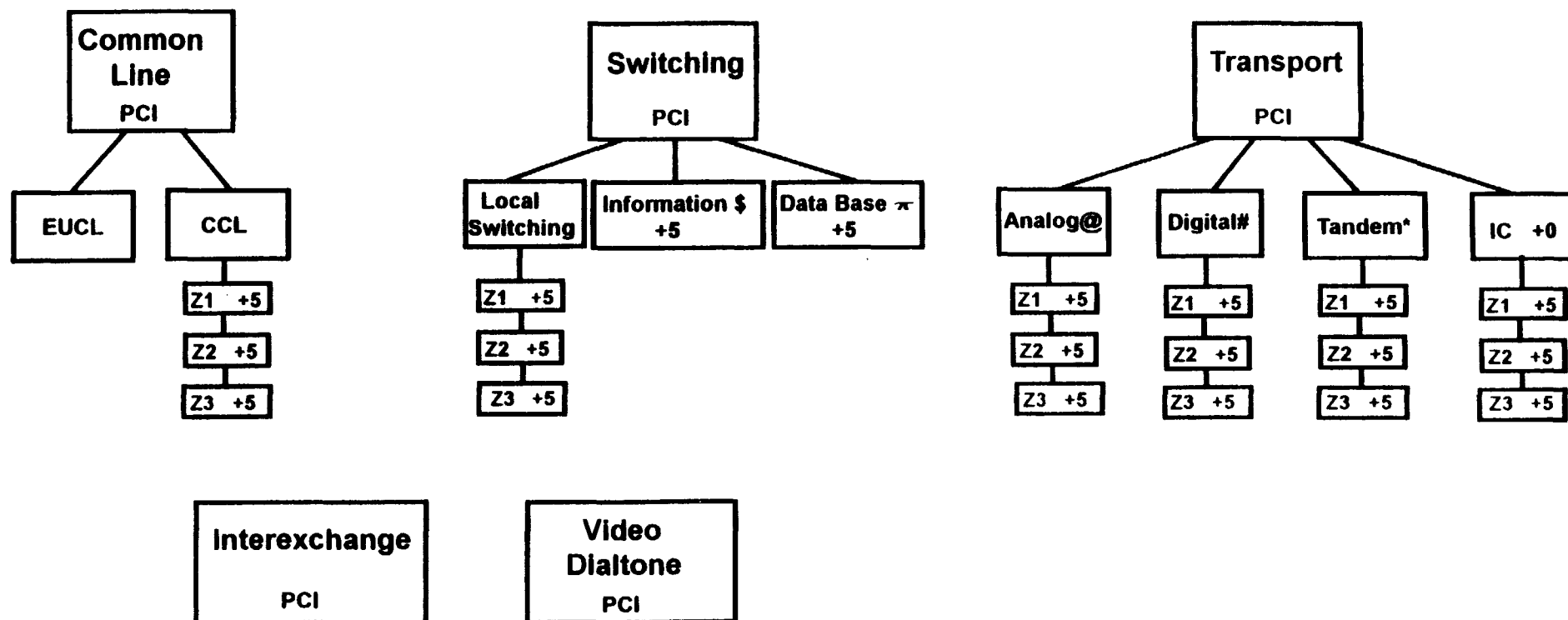
- Treatment of Markets Under Streamlined Regulation

Out of price caps.

Tariffs filed on 14 days' notice, without cost support.

Any service within relevant market can be offered under a contract-based tariff

# PROPOSED BASELINE BASKET STRUCTURE



@ Analog service category includes Voice Grade, Audio, Video, Wideband

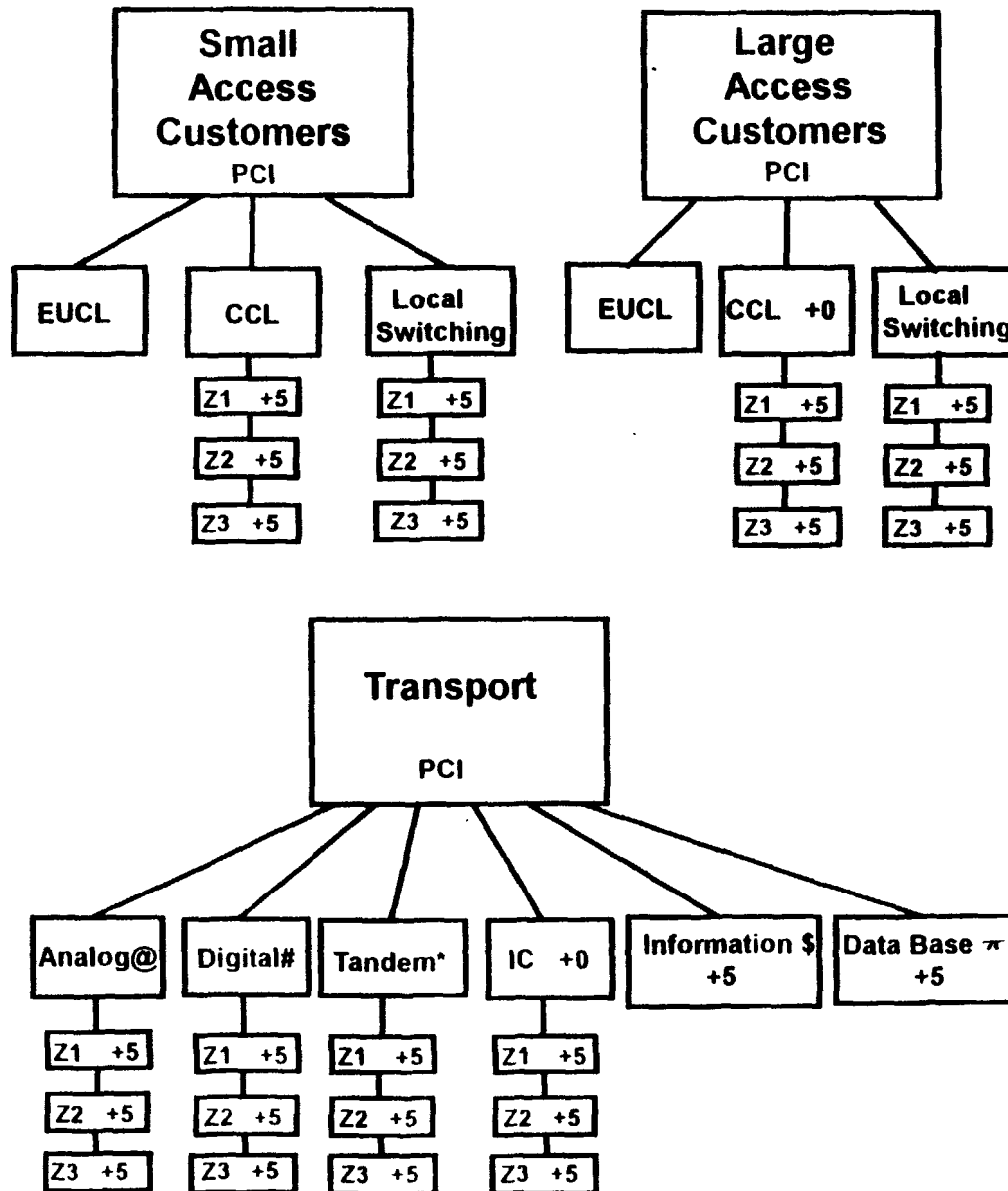
# Digital service category includes DDS, DS1, DS3

\* Tandem service category includes Tandem Switching, Tandem Transport

\$ Information service category includes Billing Name & Address (BNA), Directory Assistance, Directory Assistance Call Completion

π Data Base service category includes 800 Data Base, 800 Verticle Services, Line Information Data Base (LIDB)

## OPTIONAL BASELINE BASKET STRUCTURE



**Video  
Dialtone**  
PCI

**Interexchange**  
PCI

@ Analog service category includes Voice Grade, Audio, Video, Wideband

# Digital service category includes DDS, DS1, DS3

\* Tandem service category includes Tandem Switching, Tandem Transport

\$ Information service category includes Billing Name & Address (BNA), Directory Assistance, Directory Assistance Call Completion

π Data Base service category includes 800 Data Base, 800 Vertical Services, Line information Data Base (LIDB)